

Ukraine nationalizes Privatbank, to fully dilute Eurobond holders

19 December 2016

Ukraine's Cabinet of Ministers ruled on Dec. 18 to fully nationalize Ukraine's biggest private lender Privatbank (PRBANK) by purchasing 100% of the bank's shares. The bank's private shareholders requested that the state become the full shareholder, the Cabinet said in a press release.

Privatbank's total capital gap is preliminary estimated by the central bank (NBU) at UAH 148 bln, while the final figure will be calculated after due diligence. Of the total gap, the government plans to contribute UAH 116 bln in state bonds to the bank's equity, and it plans to raise UAH 32 bln by converting related party loans and unsecured lending to the bank into its equity. At the initial stage, the government will increase the bank's equity by UAH 43 bln via contribution of state bonds.

The holders of Privatbank's Eurobonds will be bailed-in, NBU Head Valeria Gontareva and Finance Minister Oleksandr Danylyuk told a press briefing on Dec. 19. The bail-in details were not disclosed at the briefing.

Alexander Paraschiy: The soon nationalization of Privatbank is a surprise to us, even though we did not rule out such a scenario. But it is line with our view that PRBANK bonds are too risky to invest in.

The key question is what will happen to the bank's Eurobond holders. Thus far, our understanding is that value of PRBANK notes is zero. From what we have learned so far, in the near future all the bank's related-party borrowings and unsecured non-deposit obligations (like Eurobonds) will be converted into equity, contributing about UAH 32 bln to the bank's capital. But that won't be enough to make the bank's capital positive. In order to secure positive capital, the state will execute the purchase of 100% of the shares and afterwards will contribute state bonds to raise its equity.

In other words, all Eurobonds will be converted into equity and then the bank's equity will be fully diluted before the government steps in.

As for the macro consequences of the nationalization, Ukraine's state debt will increase by at least UAH 116 bln (USD 4.4 bln), or by about 5.0% of GDP (to about 85% of GDP). The increased leverage won't harm Ukraine's cooperation with the IMF since it foresaw the nationalization scenario, with up to a UAH 150 bln contribution from the state into the bank's equity. Instead, we expect the nationalization will even accelerate the release of the next IMF tranche to Ukraine.

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